
LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM**FINANCIAL STATEMENTS****JUNE 30, 2011**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

FINANCIAL STATEMENTS

JUNE 30, 2011

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 5
<u>Financial Statements</u>	
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 18
<u>Supplemental Information</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 - 20
Schedule of Findings and Questioned Costs	21
Schedule of Prior Year Audit Findings	22

INDEPENDENT AUDITORS' REPORT

Board of Managers
Louisiana Sheriffs' Law Enforcement Program
Baton Rouge, Louisiana

We have audited the accompanying statements of net assets of Louisiana Sheriffs' Law Enforcement Program (a quasi-public organization) (the Program) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Sheriffs' Law Enforcement Program as of June 30, 2011 and 2010, and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9 to the basic financial statements, the Program has restated the June 30, 2010 financial statements as a result of error corrections related to its claims expense and unpaid claims liabilities.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The Program has not presented certain historical information related to its insurance activities, including premium and investment revenues, unallocated claim adjustment expenses and other costs, and incurred claims and allocated claim adjustment expenses. Accounting principles generally accepted in the United States of America has determined that this information is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 30, 2011, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Postlethwaite & Nettles

Baton Rouge, Louisiana
December 30, 2011

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Sheriffs' Law Enforcement Program's (the Program) financial performance presents a narrative overview and analysis of the Program's financial activities for the years ended June 30, 2011 and 2010. This document focuses on the current period's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Program's financial statements, which follow this section.

The Program's financial statements as of and for the year ended June 30, 2010 have been restated to correct for errors identified in the original calculations of the Program's unpaid claims liability reserve as of June 30, 2010 and 2009. The information included in this Management's Discussion and Analysis incorporates the correct financial results.

Financial Highlights

- The assets of the Program exceeded its liabilities at June 30, 2011 by \$9,010,606 compared to \$9,825,093 as of June 30, 2010 (restated), which is a 8% decrease from the previous year.
- At June 30, 2011, the Program's assets totaled \$16,719,348, which consisted primarily of cash and short-term investments in certificates of deposit.
- The Program reported gross earned premiums of \$4,599,758 during the year ended June 30, 2011, and a decrease in net assets of \$814,487.
- At the end of the current fiscal year, net assets totaled \$9,010,606 or 159% of the current year expenses.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Program report information about the Program using accounting methods similar to those used by private sector businesses. These statements offer short and long-term financial information about the Program's activities. The Statements of Net Assets include all of the Program's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Program's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Program and assessing the liquidity and financial flexibility of the Program. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. These statements measure the success of the Program's operations over the year and can be used to determine whether the Program has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Program's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Assets as these circumstances become known.

Financial Analysis of the Program

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information in a way that the reader can determine if the Program is in a better financial position as a result of the year's activities. These statements report the net assets of the Program and changes in them. The net assets (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Program's net assets are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Assets

	<u>June 30, 2011</u>	<u>(Restated) June 30, 2010</u>
Total assets	\$ <u>16,719,348</u>	\$ <u>19,214,139</u>
Total liabilities	<u>7,708,742</u>	<u>9,389,046</u>
Net assets	\$ <u>9,010,606</u>	\$ <u>9,825,093</u>

All of the Program's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Managers of the Program. Total assets decreased approximately 13% and consist primarily of cash, certificates of deposit, premiums and investment income receivable. Total liabilities decreased approximately 18% due to decreases in claims liabilities and accrued expenses. Net assets decreased approximately 8% from the prior year due to the operating loss incurred.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Year Ended June 30, 2011</u>	<u>(Restated) Year Ended June 30, 2010</u>
Total operating revenues	\$ <u>4,599,758</u>	\$ <u>4,955,816</u>
Total operating expenses	<u>5,667,634</u>	<u>5,622,512</u>
Non-operating income	<u>253,389</u>	<u>379,137</u>
Change in net assets	\$ <u>(814,487)</u>	\$ <u>(287,559)</u>

Operating revenues decreased approximately \$356,000 due primarily to the fluctuations in the number of members and changes in premium rates. Total operating expenses increased approximately \$45,000 due primarily to increased claims and related expense costs.

Financial Analysis of the Program (continued)

Effective January 1, 2009, the Program entered into a fixed monthly retainer fee arrangement with its primary legal firm. The fixed retainer fees are no longer allocated to Program case files, nor are they included in amounts recoverable under the Program's excess insurance contracts.

The Program's change in net assets for 2011 was a decrease of \$814,487 primarily as a result of an increase in claims paid in connection with unfavorable development in case reserves related to prior accident years.

During fiscal 2011, the Program restated its June 30, 2010 financial statements and recorded a prior period adjustment to beginning of the year net assets as a result of error corrections related to its claims expense and unpaid claims liability reserve. The Program's Managers believe the unpaid claims liabilities included in the financial statements are fairly stated based on the information available. However, due to the nature of these significant estimates, continued fluctuations in these reserve estimates may occur.

Requests for Information

This financial report is designed to provide our members, investors, and creditors with a general overview of the Program's finances, as well as demonstrate accountability for funds the Program receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Sheriffs' Law Enforcement Program, 1175 Nicholson Drive, Baton Rouge, LA 70802 or 225-343-8402.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010

ASSETS

	2011	(Restated) 2010
Cash and cash equivalents	\$ 2,027,956	\$ 232,840
Cash and cash equivalents - segregated (Note 4)	1,542,219	1,418
Investments	10,956,967	13,602,320
Investments - segregated (Note 4)	2,060,000	3,580,000
Total cash and investments	16,587,142	17,416,578
Excess insurance premiums receivable	-	131,334
Prepaid excess insurance	-	1,487,669
Premiums receivable from members	90,781	96,470
Member deductibles receivable	749	21,916
Accrued interest receivable	40,676	60,172
Total Assets	\$ 16,719,348	\$ 19,214,139

LIABILITIES AND NET ASSETS

Liabilities:		
Unpaid claims liability	\$ 6,750,000	\$ 8,120,000
Deposits held for others	912,935	1,108,547
Accounts payable and accrued expenses	40,962	29,165
Return premium payable to members	4,845	131,334
Total Liabilities	7,708,742	9,389,046
Net assets, unrestricted	9,010,606	9,825,093
Total Liabilities and Net Assets	\$ 16,719,348	\$ 19,214,139

See accompanying notes to financial statements.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>(Restated) 2010</u>
<u>OPERATING REVENUES</u>		
Premium income	\$ 4,599,758	\$ 4,955,816
Total operating revenues	<u>4,599,758</u>	<u>4,955,816</u>
<u>OPERATING EXPENSES</u>		
Claims losses and claims adjustment expenses	3,962,413	3,831,559
Excess insurance	1,414,995	1,437,786
Louisiana Sheriffs' Association administration fees	83,862	102,892
Other general and administrative expenses	<u>206,364</u>	<u>250,275</u>
Total operating expenses	<u>5,667,634</u>	<u>5,622,512</u>
<u>OPERATING LOSS</u>	<u>(1,067,876)</u>	<u>(666,696)</u>
<u>NON-OPERATING INCOME</u>		
Investment income - net	<u>253,389</u>	<u>379,137</u>
Total non-operating income	<u>253,389</u>	<u>379,137</u>
<u>CHANGE IN NET ASSETS</u>	<u>(814,487)</u>	<u>(287,559)</u>
<u>NET ASSETS - BEGINNING OF PERIOD</u>		
<u>AS PREVIOUSLY REPORTED (NOTE 9)</u>		8,912,652
<u>PRIOR PERIOD ADJUSTMENT</u>		<u>1,200,000</u>
<u>NET ASSETS - BEGINNING OF PERIOD</u>		
<u>AS RESTATED</u>	<u>9,825,093</u>	<u>10,112,652</u>
<u>NET ASSETS - END OF PERIOD</u>	<u>\$ 9,010,606</u>	<u>\$ 9,825,093</u>

See accompanying notes to financial statements.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	(Restated) 2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
<u>Cash received from:</u>		
Member premiums collected	\$ 4,605,447	\$ 6,042,391
Member deductibles and other reimbursements collected	41,012	31,804
Excess insurance	72,674	-
Deposits held for others	500,000	835,000
<u>Cash paid for:</u>		
Service providers	(278,429)	(438,475)
Excess insurance	-	(2,925,455)
Claims and claims expenses	(5,347,413)	(3,897,300)
Deposits held for others	(695,612)	(505,719)
Net cash used in operating activities	<u>(1,102,321)</u>	<u>(857,754)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income	268,238	376,403
Proceeds from the sale and maturity of investments	8,580,000	6,630,000
Purchases of investments	<u>(4,410,000)</u>	<u>(11,375,729)</u>
Net cash provided by (used in) investing activities	<u>4,438,238</u>	<u>(4,369,326)</u>
<u>NET CHANGE IN CASH</u>	3,335,917	(5,227,080)
<u>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</u>	<u>234,258</u>	<u>5,461,338</u>
<u>CASH AND CASH EQUIVALENTS, END OF PERIOD</u>	<u>\$ 3,570,175</u>	<u>\$ 234,258</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets:	\$ (814,487)	\$ (287,559)
Investment income	(250,003)	(358,075)
Net change in fair value of investments	(3,386)	(19,262)
Net realized gains on sale of investments	-	(1,800)
Operating loss	<u>(1,067,876)</u>	<u>(666,696)</u>
Adjustments to reconcile operating income to net cash used in operating activities:		
Change in receivables	158,190	942,304
Change in prepaid expenses	1,487,669	(1,487,669)
Change in unpaid claims liability	(1,370,000)	(21,000)
Change in deposits held for others	(195,612)	329,281
Change in accounts payable and accrued expenses	<u>(114,692)</u>	<u>46,026</u>
Net cash used in operating activities	<u>\$ (1,102,321)</u>	<u>\$ (857,754)</u>

See accompanying notes to financial statements.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Organization*

The Louisiana Sheriffs' Law Enforcement Program (the Program), and its related Articles of Association were created pursuant to the provisions of Louisiana R.S. 33:1481-1485 so that participating Louisiana Sheriffs could self-insure against public liability for their acts and acts of their deputies, employees, agents and officers. The daily operations of the Program are controlled by the Board of Managers, consisting of eight Sheriffs elected by a majority vote of the Sheriffs in each Congressional District. Managers are elected for staggered terms of four years and may be re-elected to any number of successive terms.

The Program's insurance administration is performed by a third party administrator, whose duties consist of development of the self-insurance fund, billing and collecting, securing excess or reinsurance coverage, adjudicating claims and other services as directed by the Board of Managers.

The Louisiana Sheriffs' Association (LSA) provides bookkeeping support as well as other general administrative functions for the Program.

The Program is affiliated through common membership and management control with the LSA and the Louisiana Sheriffs' Risk Management Program. Although these entities are related parties, their various net assets are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and 14.

(b) *Basis of Accounting*

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Program applies Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The Program is a proprietary fund type and is presented as a business type activity. Proprietary fund types are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net assets is necessary or useful for sound financial administration. GAAP used for proprietary funds are generally those applicable to similar businesses in the private sector (accrual basis of accounting). Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Since the business of the Program is essentially that of an insurance enterprise having a business cycle greater than one year, the statements of net assets are not presented in a classified format.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Investments*

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in net investment income.

(d) *Operating / Non-operating Revenue and Expenses*

Operating revenues consist of member premiums as these revenues are generated from the Program's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Program's statutory purpose are classified as non-operating.

(e) *Premium Income and Accounts Receivable*

Premiums are recognized as income over the term of the policies as they become earned on a pro-rata basis. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred.

Premium and member deductible receivables are comprised of amounts due from members and are considered to be fully collectible by management; therefore, no reserve for bad debts has been established.

(f) *Statement of Cash Flows*

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks and money market funds.

(g) *Excess Insurance*

The Program uses excess insurance to reduce its exposure to large losses on insured events. The Program does not report risks covered by excess insurance as liabilities unless it is probable that those risks will not be covered by excess insurance carriers.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Unpaid Claims Liability

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements in Note 3.

(i) Income Taxes

The Program is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(j) Use of Estimates

Management of the Program has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially from these estimates and assumptions, the financial statements could be affected.

(k) Net Assets

The net assets of the Program are available to pay the obligations of the Program or may be returned to participating members and are considered unrestricted. Should the Program exhaust its assets available to pay obligations, outstanding claim liabilities would become the responsibility of the respective members.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

LSA provides services related to the general administrative functions of the Program, as well as rental of office space on a month-to-month basis. The fees for these services are based on a percentage of the Program's collected monthly premiums from members. Total fees were approximately \$84,000 and \$103,000 for the years ended June 30, 2011 and 2010, respectively.

The Program provides insurance coverage for Sheriffs making up the Program's Board of Managers.

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Program's aggregate unpaid claims liabilities for the year ended June 30, 2011 and 2010:

	2011	(Restated) 2010
Liability for unpaid losses at beginning of year	\$ 8,120,000	\$ 8,141,000
Net incurred related to:		
Current year claims	1,483,965	1,503,274
Prior year claims	529,533	353,581
Loss adjustment expenses	1,948,915	1,974,704
Total incurred	<u>3,962,413</u>	<u>3,831,559</u>
Net paid related to:		
Current year claims	82,571	74,275
Prior year claims	3,300,927	1,803,580
Loss adjustment expenses	1,948,915	1,974,704
Total paid	<u>5,332,413</u>	<u>3,852,559</u>
Liability for unpaid losses at end of year	<u>\$ 6,750,000</u>	<u>\$ 8,120,000</u>

During fiscal year 2011, the Program restated its unpaid claims liability as of June 30, 2010 and 2009. This also resulted in changes in the 2010 claims incurred included in the above table. See Note 9.

The Program provides risk coverage to members on a claims-made basis. The Program's claims payable have been discounted at June 30, 2011 and 2010, based on the Program's anticipated payout patterns and a discount rate assumption of 3.0%, which management expects to approximate the investment earnings over the payout period. The effect of the reserve discounts was approximately \$433,000 and \$523,000 at June 30, 2011 and 2010, respectively.

Effective January 1, 2009, the Program entered into a fixed monthly retainer fee arrangement with its primary legal defense firm. The fixed retainer fees are no longer allocated to Program case files, nor are they included in amounts recoverable under the Program's excess insurance contracts.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

The unpaid liability related to legal defense of cases, including the fixed retainer fee arrangement, was approximately \$2.3 million and \$2.4 million as of June 30, 2011 and 2010, respectively, and is included in the total unpaid claims liability.

The Program experienced overall unfavorable development on unpaid claims liabilities established in prior years during the fiscal years ended June 30, 2011 and 2010. In establishing reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage litigation. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at June 30, 2011 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through June 30, 2011 will not vary from the above estimates, and such difference could be significant.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2011, certificates of deposit and investment securities with an estimated fair value of \$13,016,967 and cash and cash equivalents of \$3,570,175 consisted of the following:

	Cost	Estimated Fair Value	Percentage of Investments	Standard & Poors Rating	Weighted- Average Maturity (Years)
Negotiable certificates of deposit	\$ 12,522,000	\$ 12,522,000	96.20%	Not rated	0.68
Corporate debt obligation	300,000	301,467	2.32%	AA	7.67
Bond mutual fund	225,000	193,500	1.48%	AAA	(1)
Subtotal - investments	<u>13,047,000</u>	<u>13,016,967</u>	<u>100.00%</u>		
Money market funds	3,701,082	3,701,082		Not rated	
Cash demand deposit overdrafts	<u>(130,907)</u>	<u>(130,907)</u>			
Subtotal - amount reported as cash	<u>3,570,175</u>	<u>3,570,175</u>			
Total cash and investments	<u>\$ 16,617,175</u>	<u>\$ 16,587,142</u>			

(1) Weighted-average maturity is not applicable to investments in mutual funds.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

At June 30, 2010, certificates of deposit and investment securities with an estimated fair value of \$17,182,320 and cash and cash equivalents of \$234,258 consisted of the following:

	Cost	Estimated Fair Value	Percentage of Investments	Standard & Poors Rating	Weighted- Average Maturity (Years)
Negotiable certificates of deposit	\$ 16,692,000	\$ 16,692,000	97.15%	Not rated	1.05
Corporate debt obligation	300,000	301,020	1.75%	AA	9.67
Bond mutual fund	225,000	189,300	1.10%	AAA	(1)
Subtotal - investments	<u>17,217,000</u>	<u>17,182,320</u>	<u>100.00%</u>		
Money market funds	219,601	219,601		Not rated	
Cash in demand deposit accounts	<u>14,657</u>	<u>14,657</u>			
Subtotal - amount reported as cash	<u>234,258</u>	<u>234,258</u>			
Total cash and investments	<u>\$ 17,451,258</u>	<u>\$ 17,416,578</u>			

(1) Weighted-average maturity is not applicable to investments in mutual funds.

At June 30, 2011 and 2010, the Program has cash equivalents totaling \$3,701,082 and \$219,601, respectively, which are held in an investment brokerage account. This balance represents an investment in money market funds that because of their relative liquidity are reported as cash equivalents on the statements of net assets.

The Program has, at the request of its excess insurance carrier, invested additional premiums collected from members electing to purchase higher specific excess of loss coverage limits in a segregated investment brokerage account. At June 30, 2011 and 2010, the Program has \$3,602,219 and \$3,581,418, respectively, of assets invested in an investment brokerage account segregated for this purpose.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Custodial Credit Risk

For cash and cash equivalents (demand deposit accounts and money market funds), custodial credit risk is the risk that in the event of financial institution failure, the Program's deposits may not be returned to them. The Program has no custodial credit risk with respect to demand deposit accounts at June 30, 2011. The Program's investments in money market funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments that are in the possession of an outside party. At June 30, 2011 and 2010, the Program's investments in negotiable certificates of deposit and debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. The Program's investments in bond mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will be unable to meet its obligations. The Program minimizes this risk by adhering to an investment strategy designed to achieve a conservative risk/return characteristic by investing a significant portion of its investment portfolio in certificates of deposit insured by the Federal Deposit Insurance Corporation.

Concentration of Credit Risk

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Program's investment in a single issuer. At June 30, 2011 and 2010, there were no investments in any one issuer that represented 5% or more of total investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. The Program measures and monitors the weighted-average maturity of the fixed income securities portfolio to manage exposure to interest rate risk. This includes the weighted-average maturities of the total fixed income portfolio, individual securities, as well as categories of securities held by the Program.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

The scheduled contractual maturities of investments in debt obligations and certificates of deposit held at June 30, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 9,927,000	\$ 9,927,000
Due after one year through five years	2,595,000	2,595,000
Due after five years through ten years	<u>300,000</u>	<u>301,467</u>
	<u>\$ 12,822,000</u>	<u>\$ 12,823,467</u>

Net investment income for the years ended June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 250,003	\$ 358,075
Realized gains – net	-	1,800
Unrealized gains arising during the year – net	<u>3,386</u>	<u>19,262</u>
	<u>\$ 253,389</u>	<u>\$ 379,137</u>

5. EXCESS INSURANCE POLICY COVERAGE

Effective September 1, 2005 through June 30, 2011, the Program has obtained excess insurance coverage from Princeton Excess & Surplus Lines Insurance Company, which is rated as superior by A.M. Best Company (as of October 27, 2011). The Program retains the first \$100,000 of loss exposure. Additionally, the Program retains additional risk (corridor deductible) on both a per occurrence and aggregate basis in the amount of \$1,000,000 per policy year. Participating members may elect to purchase specific excess of loss coverage limits of \$900,000, \$1,900,000, or \$2,900,000. The specific excess of loss insurance policy has a \$10,000,000 aggregate limit for all members.

For prior years, the Program also obtained specific excess insurance coverage with differing specific and aggregate loss limits from other excess insurance carriers.

These excess contracts do not relieve the Program from its obligations to members. Failure of excess carriers to honor their obligations could result in losses to the Program. The Program evaluates the financial condition of its excess carriers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the excess carrier to minimize its exposure to significant losses from excess carrier insolvencies.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5. EXCESS INSURANCE POLICY COVERAGE (continued)

As described in Note 3, changes in the legal management fee structure affected the types of claims-related costs included in the excess coverage limits.

6. DEPOSITS HELD FOR OTHERS

The Program provides bookkeeping and other general administrative services to one parish sheriffs group who operates a self-funded insurance program. The Program does not bear insurance risk for this group and, accordingly, excludes the activity of this group from premiums and claims expense. The group deposits funds with the Program, and the Program disburses the funds according to the group's financial obligations. The Program is paid an administrative fee for these services, which is included as a reduction of other general and administrative expenses in the Statements of Revenues, Expenses and Changes in Net Assets. At June 30, 2011 and 2010, deposits held by the Program for this group totaled \$912,935 and \$1,108,547, respectively.

7. CONTINGENCIES

During the normal course of business, the Program becomes involved in various insurance related claims and legal actions. Management of the Program establishes estimated liabilities for reported and unreported contingencies. Management believes that the outcome of claims and any related legal proceedings will be provided for by the estimated insurance liabilities and will not have a material adverse effect on the Program's financial position or results of operations.

8. SUBSEQUENT EVENTS

Events through December 30, 2011 (the date the financial statements were available to be issued) have been evaluated for their effects on the June 30, 2011 financial statements. No events occurring after this date have been evaluated for inclusion in the financial statements.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

9. PRIOR PERIOD ADJUSTMENTS

The Program became aware of certain errors in the calculations underlying the reserve liability estimates for unpaid claims and unpaid legal defense estimates at June 30, 2010 and 2009. Accordingly, the Program has restated its June 30, 2010 financial statements included herein, which included an overstatement of previously reported claims expense and unpaid claims liabilities. The effects of these adjustments were as follows on the financial statements as of and for the year ended June 30, 2010:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Unpaid claims liability	<u>\$ 10,971,000</u>	<u>\$ (2,851,000)</u>	<u>\$ 8,120,000</u>
Claims losses and claims adjustment expenses	<u>5,482,559</u>	<u>(1,651,000)</u>	<u>3,831,559</u>
Net assets, unrestricted June 30, 2009	<u>8,912,652</u>	<u>1,200,000</u>	<u>10,112,652</u>

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Board of Managers
Louisiana Sheriffs' Law Enforcement Program
Baton Rouge, Louisiana

We have audited the financial statements of the Louisiana Sheriffs' Law Enforcement Program as of June 30, 2011 and for the year then ended, and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Sheriffs' Law Enforcement Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Sheriffs' Law Enforcement Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Sheriffs' Law Enforcement Program's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness [2011-1]. Our responsibility under current audit standards requires us to communicate this issue to the Board of Managers.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Sheriffs' Law Enforcement Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain other matter that we reported to management of the Louisiana Sheriffs' Law Enforcement Program in a separate letter dated December 30, 2011.

Management's response to the material weakness indentified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Louisiana Sheriffs' Law Enforcement Program, management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite + Nettles

Baton Rouge, Louisiana
December 30, 2011

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

- (1) The auditors' report expressed an unqualified opinion on the financial statements of the Louisiana Sheriffs' Law Enforcement Program (the Program) as of June 30, 2011 and for the year then ended.
- (2) There is a significant deficiency relating to the audit of the financial statements, which is reported in section B on this schedule. This significant deficiency [2011-1] is considered a material weakness.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESS

2011-1 Design of Internal Control Over Financial Reporting

Condition: As part of the audit process, the auditors have assisted management in drafting the financial statements and related notes for year-end financial reporting. Additionally, the auditor has proposed several adjusting journal entries to adjust the books and records of the Program, and these adjustments have been reviewed and accepted by management. In the auditors' judgment, the number and magnitude of adjustments proposed, either individually or in the aggregate, indicate matters that do have a significant effect on the Program's financial reporting process. Because the involvement of the auditor is so key to the financial reporting process, this is an indication that the internal control over financial reporting of the Program is a material weakness as defined by auditing standards.

Criteria: Internal controls over financial reporting should be adequately designed and implemented to minimize reliance on the auditor and to enable the Program to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Significant adjusting journal entries were proposed to allow the financial statements to accurately reflect the Program's financial position, operations and cash flows.

Recommendation: Small entities with few internal accounting personnel or resources typically have difficulty establishing formal internal control procedures to ensure accurate financial reporting. While cost effectiveness certainly needs to be considered, we recommend that management evaluate the need to set up controls by hiring additional resources to mitigate its financial reporting risk.

Management's response: Management understands and concurs with the finding. Management will work closely with our auditor to further understand the risks and consider the need to dedicate additional resources for the documentation of internal controls and preparation of our financial statements.

LOUISIANA SHERIFFS' LAW ENFORCEMENT PROGRAM
BATON ROUGE, LOUISIANA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

MATERIAL WEAKNESS

2010-1 Design of Internal Control Over Financial Reporting

Condition: As part of the audit process, the auditors have assisted management in drafting the financial statements and related notes for year-end financial reporting. Additionally, the auditor has proposed several adjusting journal entries to adjust the books and records of the Program, and these adjustments have been reviewed and accepted by management. In the auditors' judgment, the number and magnitude of adjustments proposed, either individually or in the aggregate, indicate matters that do have a significant effect on the Program's financial reporting process. Because the involvement of the auditor is so key to the financial reporting process, this is an indication that the internal control over financial reporting of the Program is a material weakness as defined by auditing standards.

Criteria: Internal controls over financial reporting should be adequately designed and implemented to minimize reliance on the auditor and to enable the Program to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: Significant adjusting journal entries were proposed to allow the financial statements to accurately reflect the Program's financial position, operations and cash flows.

Recommendation: Small entities with few internal accounting personnel or resources typically have difficulty establishing formal internal control procedures to ensure accurate financial reporting. While cost effectiveness certainly needs to be considered, we recommend that management evaluate the need to set up controls by hiring additional resources to mitigate its financial reporting risk.

Management's response: Management understands and concurs with the finding. Management will work closely with our auditor to further understand the risks and consider the need to dedicate additional resources for the documentation of internal controls and preparation of our financial statements.

Current status: This matter remains unresolved. See finding 2011-1.



A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

December 30, 2011

Board of Managers
Louisiana Sheriffs' Law Enforcement Program
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of the Louisiana Sheriffs' Law Enforcement Program (the Program) for the year ended June 30, 2011, we considered the Program's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We also considered its compliance with certain provisions of laws and regulations in order to properly perform the audit in accordance with governmental standards and not to provide an opinion on compliance with those provisions.

However, during our audit, we became aware of a matter that we believe warrants the attention of the Board and is an opportunity for improving financial reporting and refining policies and procedures. The following summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated December 30, 2011, on the financial statements of the Program.

Written Agreement

The Program has no formal written contract or agreement between the Program and its primary legal firm used in the defense of the Program's claims. The Program has entered into a fixed monthly retainer fee arrangement with this legal firm. We strongly recommend that a formal written contract be developed, utilizing independent counsel, executed by the parties and maintained on file. At a minimum, the contract should outline the duties, responsibilities, financial terms, and obligations of each party as well as contain other standard but critical contract language. Good business practices always include having a written agreement for any such major contractual arrangements.

We have already discussed this comment with management, and we will be pleased to discuss it in further detail at your convenience. We would also like to thank the Program administrators and staff for their patience and cooperation with us during the performance of the audit.

Sincerely,

A handwritten signature in cursive script that reads 'Postlethwaite & Netterville'.



Louisiana Sheriffs' Law Enforcement Program

1175 Nicholson Drive • Baton Rouge, LA 70802
Phone (225) 343-8402 • Fax (225) 336-0343

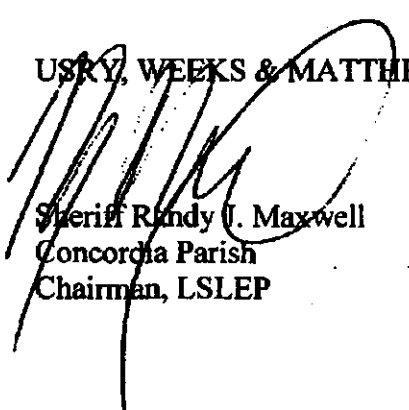
February 7, 2012

Mr. Chad Becnel, CPA
Postlethwaite & Netterville
8550 United Plaza Blvd.
Suite 1001
Baton Rouge, LA 70809

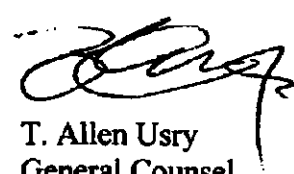
Dear Mr. Becnel,

Usry, Weeks & Matthews has represented the Sheriffs' self insurance program and its members ever since the programs inception in 1986, over 25 years ago. Their work and their relationship with us has always been both professional and excellent. They have never had a written contract with the program and it is difficult for us to understand how such a document could improve our relationship. However, in an effort to placate those who deem such a contract advisable, Allen Usry, on behalf of the firm of Usry, Weeks & Matthews is signing this letter and agreeing to represent the Louisiana Sheriffs' Law Enforcement Program ("LSLEP") and its members upon such terms and conditions and pursuant to such rates or methods of payment as the Board may, from time to time, deem advisable with the understanding that the Board may at any time, with or without cause, terminate the relationship of the law firm of Usry, Weeks & Matthews with the LSLEP.

USRY, WEEKS & MATTHEWS, APLC



Sheriff Randy J. Maxwell
Concordia Parish
Chairman, LSLEP



T. Allen Usry
General Counsel